



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

# FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



## Welcome to... FHA Quality Assurance Update

Today's webinar begins at 2:00 PM (Eastern).

**We will be underway shortly.**

Please test your speakers and choose Audio source (computer/smartphone or telephone) by selecting desired option in **Audio Settings** – see left side of toolbar at bottom of screen.



OFFICE OF SINGLE FAMILY HOUSING



# •Technical Support

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- Recommend Chrome browser.
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# Q&A Session

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- Q&A session will follow the presentation.
- Follow instructions in *Q&A Instructions* link found in the **Chat** icon/**Landing Page** and **Q&A Instructions** slide at end of the presentation.
- Test Audio, if asking a question.
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- Send unanswered questions to FHA Resource Center.



## •Contact the FHA Resource Center

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- Online: [www.hud.gov/answers](http://www.hud.gov/answers)
- Email: [answers@hud.gov](mailto:answers@hud.gov)
- Phone: [1-800-Call-FHA](tel:1-800-Call-FHA) (1-800-225-5342)

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- Documents/Materials:
  - Click **Chat** icon or **Landing Page**
  - Select the *Webinar Documents/Materials* link for a copy of the presentation.
- Training Evaluation:
  - Click on the **Chat** icon or **Landing Page** and select the *Survey* link.



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Click on the **Chat** icon or **Landing Page** and select links to bookmark:

- FHA Lenders page:  
[https://www.hud.gov/program\\_offices/housing/sfh/lender](https://www.hud.gov/program_offices/housing/sfh/lender)
- FHA FAQ page:  
<https://www.hud.gov/FHAFAQ>
- Single Family Housing Archived (On Demand) Webinar's page:  
[https://www.hud.gov/program\\_offices/housing/sfh/events/sfh\\_webinars](https://www.hud.gov/program_offices/housing/sfh/events/sfh_webinars)







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# FEDERAL HOUSING ADMINISTRATION

SINGLE FAMILY HOUSING



## Office of Lender Activities and Program Compliance **FHA Quality Assurance Update** December 15, 2021

Presented by:  
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**Last Updated: 12/2/2021**



OFFICE OF SINGLE FAMILY HOUSING



# Agenda

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Loan Review Results

Top Underwriting Findings

Top Servicing Findings

Resources

Q&A





# Loan Review Results



# Loan Review Volume: Underwriting

Selection Reason	CY20 Q4	CY21 Q1	CY21 Q2	CY21 Q3	# Completed	# Net Material	% Net Material
Early Payment Defaults	2,789	2,988	4,081	4,094	13,952	927	6.6%
Lender Self-Reports	1,282	500	1,507	763	4,052	1,570	38.8%
Risk Algorithm	1,353	2,057	217	47	3,674	346	9.4%
Lender Monitoring	320	572	873	755	2,520	261	10.4%
Review Location Quality Control (QC)	245	222	263	283	1,013	47	4.6%
Test Case	122	145	183	152	602	27	4.5%
FHA Manual Selections	135	150	104	105	494	192	38.9%
Random Selections	212	15	4	3	234	18	7.7%
Early Claims	27	78	72	11	188	21	11.2%
OIG Audit	0	0	18	14	32	17	53.1%
<b>Total</b>	<b>6,485</b>	<b>6,727</b>	<b>7,322</b>	<b>6,227</b>	<b>26,761</b>	<b>3,426</b>	<b>12.8%</b>

*Loan Review System (LRS) reviews completed from 10/1/2020 to 9/30/2021*



# Loan Review Volume: Servicing

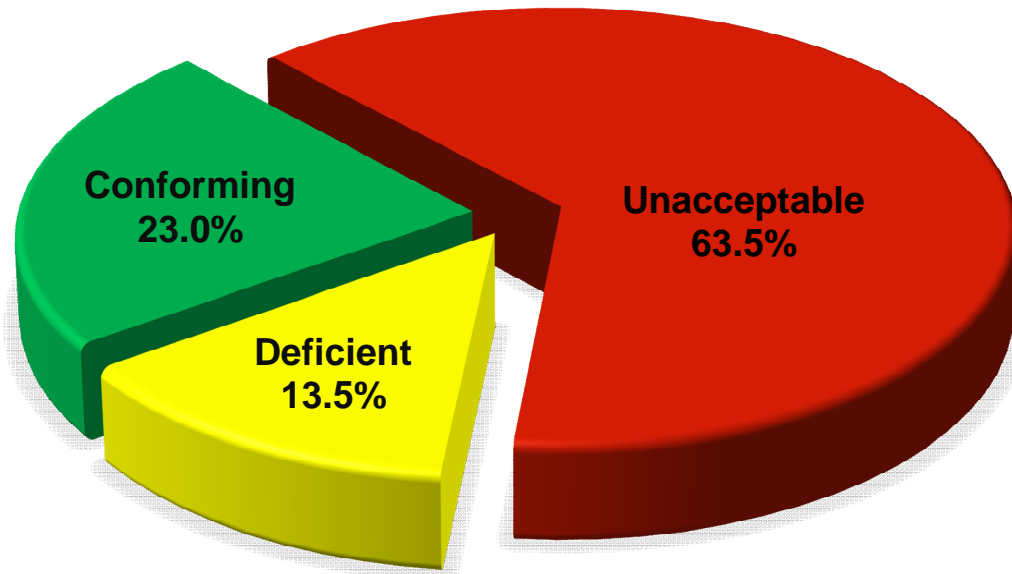
Selection Reason	CY20 Q4	CY21 Q1	CY21 Q2	CY21 Q3	# Completed	# Net Material	% Net Material
Lender Monitoring	197	136	241	287	861	38	4.4%
Lender Self-Reports	160	59	215	118	552	30	5.4%
FHA Manual Selections	1	44	22	19	86	2	2.3%
Review Location Quality Control (QC)	10	0	6	1	17	0	0%
<b>Total</b>	<b>368</b>	<b>239</b>	<b>484</b>	<b>425</b>	<b>1,516</b>	<b>70</b>	<b>4.6%</b>

*Loan Review System (LRS) reviews completed from 10/1/2020 to 9/30/2021*

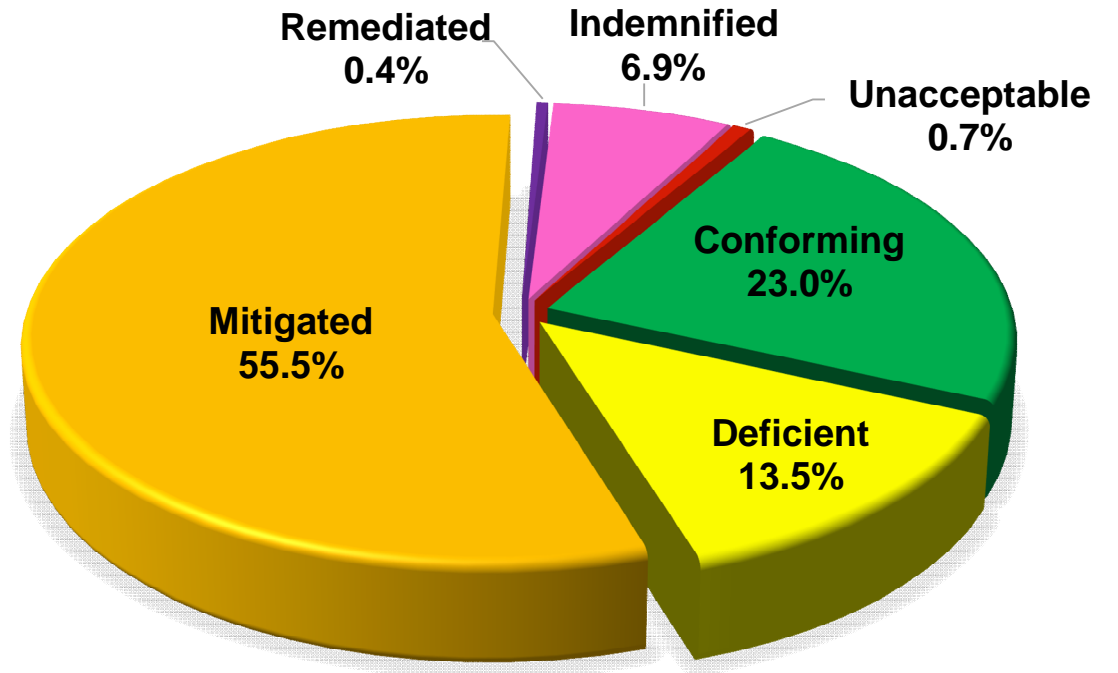


# Quarterly Ratings and Outcomes

Initial Ratings (Gross)



Final Ratings (Net)



*LRS reviews completed from 10/1/2020 to 9/30/2021 (excluding lender self-reports and internal QC)*

# Quarterly Loan Review Summary

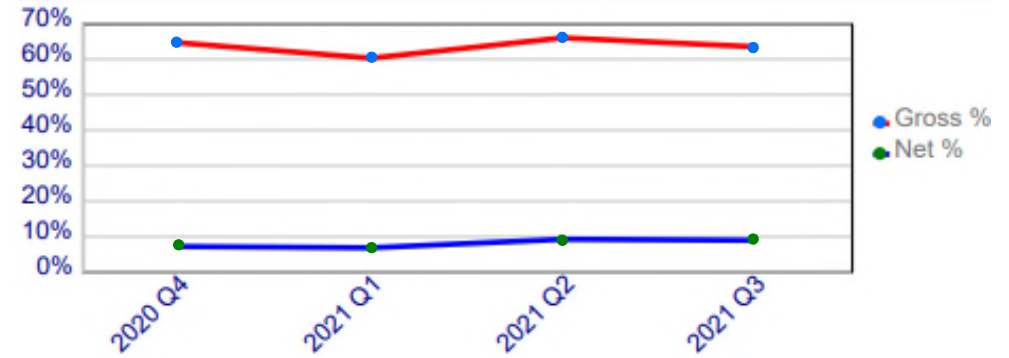
Completed Quarter(s): 2021 Q3, 2021 Q2, 2021 Q1, 2020 Q4 (calendar year)

Location(s): All

Sample: Total (performing and non-performing loans, excluding lender self-reports and internal QC)

## Material Defects

Qtr	# of Loans	Gross #	Gross %	Net #	Net%
2020 Q4	5,191	3,355	64.6%	375	7.2%
2021 Q1	6,206	3,742	60.3%	426	6.9%
2021 Q2	5,835	3,853	66.0%	540	9.3%
2021 Q3	5,513	3,501	63.5%	494	9.0%

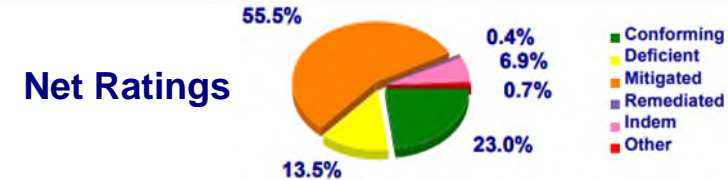
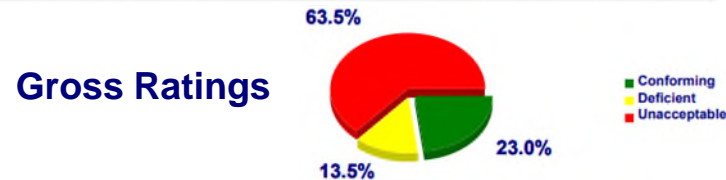


## Review Ratings #

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2020 Q4	1,057	779	2,980	27	303	45
2021 Q1	1,536	928	3,316	28	346	52
2021 Q2	1,322	660	3,313	20	479	41
2021 Q3	1,317	695	3,007	23	442	29
Total	5,232	3,062	12,616	98	1,570	167

## Review Ratings %

Quarter	Conforming	Deficient	Mitigated	Remediated	Indem	Other
2020 Q4	20.4%	15.0%	57.4%	0.5%	5.8%	0.9%
2021 Q1	24.8%	15.0%	53.4%	0.5%	5.6%	0.8%
2021 Q2	22.7%	11.3%	56.8%	0.3%	8.2%	0.7%
2021 Q3	23.9%	12.6%	54.5%	0.4%	8.0%	0.5%
Total	23.0%	13.5%	55.5%	0.4%	6.9%	0.7%



# Top Underwriting Findings





# Top Underwriting Findings

Defect Area	% of Net Material
Borrower Income	19%
Borrower Credit	18%
Lender Operations	18%
Borrower Assets	15%
Property Eligibility	10%
Mortgage Eligibility	6%
Borrower Eligibility	6%
LTV/Max Mortgage Amount	5%
Property Appraisal	4%

- Represents underwriting findings in LRS reviews completed from 10/1/2020 to 9/30/2021.
- Percentages based on the total number of net material findings in each defect area.
- Excludes lender self-reports and internal QC.

# Borrower Income

Source	Cause	Frequent Examples
Salary or Hourly Wages from Primary Employment	History, stability, and/or continuance not supported	<ul style="list-style-type: none"> <li>→ Borrower's most recent two years of employment and income, from current employment and/or and past employment not documented.</li> <li>→ Stability of income not supported based on gap in employment of six months or more because borrower was not employed on current job for at least six months at the time of case number assignment and/or two-year work history prior to gap in employment was not documented.</li> </ul>
	Effective income improperly calculated or not supported by documentation	<ul style="list-style-type: none"> <li>→ Borrower employment income was not averaged over the previous two years as required for hourly employees with variable hours.</li> <li>→ Self-employment income was not calculated based on the average gross self-employment income earned over the previous two years.</li> </ul>
Self-Employment	Issues concerning required documentation or verifications	<ul style="list-style-type: none"> <li>→ Borrower was self-employed for less than two years and was not previously employed in the same line of work or in an occupation related to self-employment.</li> <li>→ Documentation reveals self-employment loss that was not subtracted from the borrower's gross monthly qualifying income as required.</li> </ul>

# Borrower Income (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section II.A.***

- 1.b.ii(A)** General Borrower Eligibility Requirements
  - 4.a** Underwriting with an Automated Underwriting System
  - 4.c** Income Requirements (TOTAL)
  - 4.e** Final Underwriting Decision (TOTAL)
  - 5.b** Income Requirements (Manual)
  - 5.d** Final Underwriting Decision (Manual)

*References are not all-inclusive*



# Borrower Credit

Source	Cause	Frequent Examples
Monthly Obligations	Required documentation not included in loan file.	<ul style="list-style-type: none"><li>→ Account or payment history not included in borrower's credit report.</li><li>→ Unresolved discrepancies or conflicting information related to liabilities or debt.</li><li>→ Insufficient compensating factors or debt ratio exceeds the FHA maximum for manually underwritten borrowers.</li></ul>
Mortgage Payment History	<p>Amount not supported or improperly calculated.</p> <p>FHA standards not met.</p>	<ul style="list-style-type: none"><li>→ Borrower approval and eligibility for FHA refinance not supported based on insufficient or unacceptable payment history.</li><li>→ FHA is unable to determine eligibility/underwriting compliance or cannot calculate monthly debts/obligations based on loan documentation.</li></ul>

# Borrower Credit (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section II.A.***

- 1.b.ii(A)** General Borrower Eligibility Requirements
  - 4.a** Underwriting with an Automated Underwriting System
  - 4.b** Credit Requirements (TOTAL)
  - 4.e** Final Underwriting Decision (TOTAL)
  - 5.a** Credit Requirements (Manual)
  - 5.d** Final Underwriting Decision (Manual)

*References are not all-inclusive*



# Top Servicing Findings



# Top Servicing Findings

Defect Area	% of Net Material
Delinquent & Default Servicing	33%
Loss Mitigation	32%
General Servicing	19%
Foreclosure Processing	7%

- Represents servicing findings in LRS reviews completed from 10/1/2020 to 9/30/2021.
- Percentages based on the total number of net material findings in each defect area.
- Excludes lender self-reports and internal QC.

# Delinquent and Default Servicing

Source	Cause	Frequent Examples
Delinquency or Default Status	FHA reporting requirements not met	<ul style="list-style-type: none"><li>→ Reason for default, default status date, or oldest unpaid installment date not accurately reported to FHA.</li><li>→ Occupancy status and/or date of occupancy determination inaccurately reported.</li><li>→ Presidentially-Declared COVID-19 National Emergency related reporting errors.</li></ul>
Servicing File	Record retention requirements not met	<ul style="list-style-type: none"><li>→ FHA is unable to determine delinquent and default servicing compliance due to missing or incomplete individual servicing account records.</li><li>→ Original loan documents, individual account history, or servicing records not maintained or preserved as required during servicing transfer.</li></ul>

# Delinquent and Default Servicing (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section III.A.***

- 2.a** Mortgages in Delinquency or Default
- 2.b** HUD Default Servicing Contact
- 2.c** Reporting to Consumer Reporting Agencies and the IRS
- 2.d** Late Charges
- 2.e** Partial Payments for Mortgages in Default
- 2.f** Lien Status
- 2.o** Presidentially-Declared COVID-19 National Emergency
- 3.** Programs and Products

*References are not all-inclusive*



# Loss Mitigation

Source	Cause	Frequent Examples
Loss Mitigation Status	Reporting requirements not met	<ul style="list-style-type: none"> <li>→ Stage of loss mitigation review was not reported to FHA using the accurate <i>Delinquency Workout Status Code</i>.</li> <li>→ Servicer initiated foreclosure but did not ensure complete or accurate reporting of <i>Ineligible for Loss Mitigation Code</i>.</li> </ul>
Loss Mitigation Waterfall Options	Unallowable or improperly calculated amounts	<ul style="list-style-type: none"> <li>→ Servicer did not complete review of loss mitigation request to determine whether the borrower qualified for a Loss Mitigation Option as required.</li> <li>→ Unallowable or improperly calculated amount included in total outstanding debt to be resolved or capitalized and/or loan was not brought current for the month due through completion of loan modification and/or partial claim.</li> </ul>
Financial Evaluation	Issues with required documentation	<ul style="list-style-type: none"> <li>→ Determination of eligibility for Home Retention or Home Disposition Option is not supported based on documents retained in the servicing file.</li> <li>→ Borrower was not properly evaluated for loss mitigation in accordance with Presidentially-Declared COVID-19 National Emergency specific provisions.</li> </ul>

# Loss Mitigation (cont.)

## HUD Policy References

### ***Single Family Housing Policy Handbook 4000.1, Section III.A.***

- 2.i Loss Mitigation Review Process
- 2.j HUD's Loss Mitigation Program
- 2.m Loss Mitigation Incentives
- 2.n Presidentially-Declared Major Disaster Areas
- 2.o Presidentially-Declared COVID-19 National Emergency
- 3. Programs and Products

*References are not all-inclusive*



# Resources





# Resources

## LRS Information Page

[https://www.hud.gov/program\\_offices/housing/sfh/lender/loan\\_review\\_system](https://www.hud.gov/program_offices/housing/sfh/lender/loan_review_system)

[Home](#) / [Program Offices](#) / [Housing](#) / [Single Family](#) / [Lenders](#) / [Loan Review System](#)

- LRS User Manual
- FHA Defect Taxonomy
- Webinars

### LOAN REVIEW SYSTEM

The Loan Review System (LRS) is the electronic platform for most Federal Housing Administration (FHA) Title II Single Family quality assurance review processes, including:

- Various Post-Endorsement Loan Reviews
- Unconditional Direct Endorsement Authority Test Cases
- Lender Monitoring Reviews
- Lender Self-Reporting of Fraud and Other Material Findings

#### Functions and Features

- Communicates findings using FHA's Defect Taxonomy
- Consolidates most quality assurance functions into one system
- Automates various manual processes and communications
- Organizes and prioritizes requests for lender responses
- Streamlines submission of required documents
- Enhances loan quality reporting and analytics
- [LRS User Manual - Updated January 1, 2020](#)

#### FHA Defect Taxonomy

The Defect Taxonomy is FHA's method of identifying defects at the loan-level. It provides clarity and transparency into existing FHA quality assurance processes and is used to describe findings through the Loan Review System (LRS) based on HUD policy requirements. The FHA Defect Taxonomy provides useful data and feedback through structured categorization of defects and their sources, causes, and severities. For more predictable review outcomes, potential remedies that align with severity tiers are listed in each defect area.

Appendix 8.0 – FHA Defect Taxonomy includes the content implemented with version 2 of the Defect Taxonomy, effective for loan reviews as of January 1, 2020. It supersedes the originally published version which was implemented through LRS in 2017 and applicable for loan reviews through December 31, 2019. Appendix 8.0 – FHA Defect Taxonomy is part of the [FHA Single Family Housing Policy Handbook 4000.1](#).

#### Loan Review Resources

▸ [LRS User Manual](#)

Discontinued December 31, 2019

▸ [Defect Taxonomy Version 1](#)

#### Quality Assurance Webinars

Take advantage of FHA's online webinar offerings to stay up-to-date on quarterly quality assurance results, most common findings, and additional guidance for lenders related to quality assurance processes.

▸ [UPCOMING SINGLE FAMILY HOUSING EVENTS AND TRAINING](#)

▸ [SINGLE FAMILY HOUSING ARCHIVED WEBINARS](#)

#### Subscribe to FHA INFO Announcements

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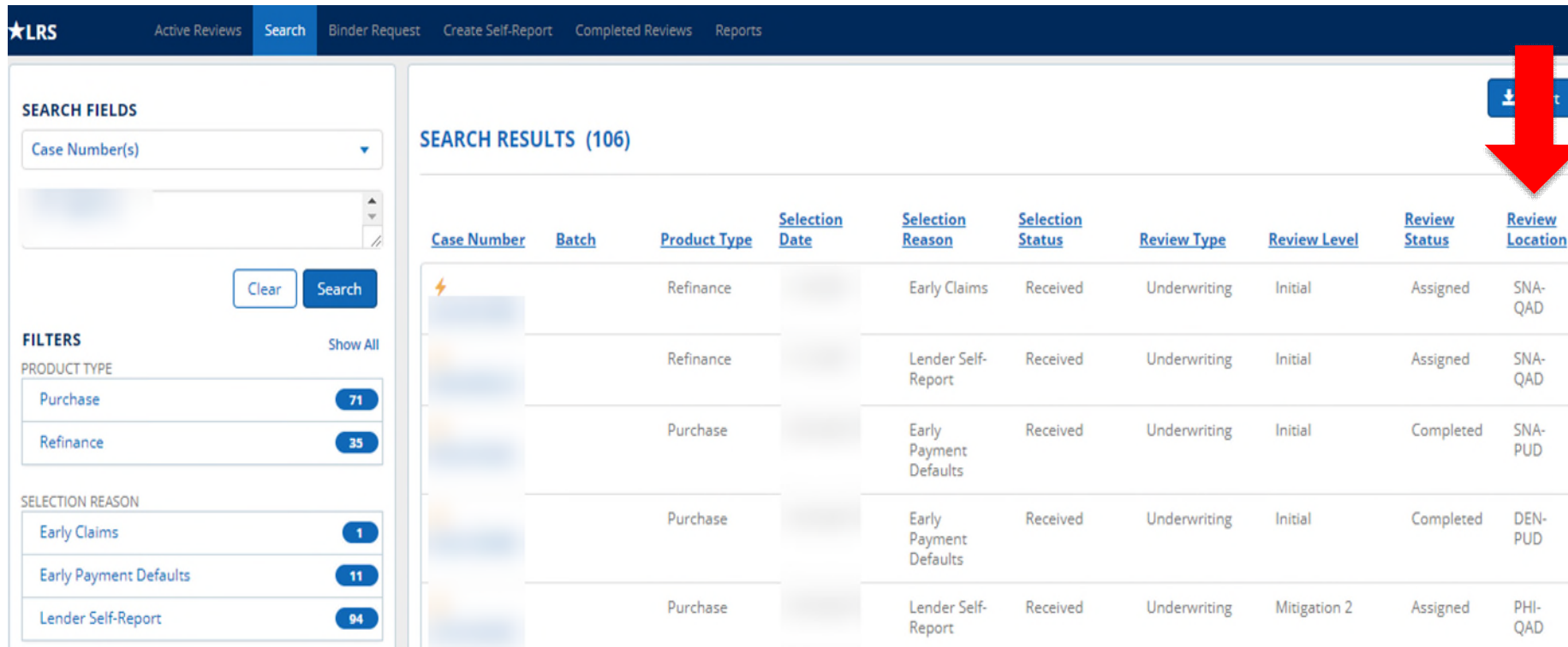
[FHA INFO ARCHIVE](#)



# Resources (cont.)

## FHA Resource Center

- When inquiring about a specific LRS review, lenders must provide FHA Case Number and review location.
  - Review location is shown on the LRS Search screen, the Binder Request screen, or the Review Data tab.



The screenshot displays the LRS (Loan Review System) Search interface. The top navigation bar includes links for Active Reviews, Search, Binder Request, Create Self-Report, Completed Reviews, and Reports. The Search tab is currently active.

**SEARCH FIELDS**

Case Number(s) [dropdown menu]

[Clear] [Search]

**FILTERS** [Show All](#)

**PRODUCT TYPE**

- Purchase 71
- Refinance 35

**SELECTION REASON**

- Early Claims 1
- Early Payment Defaults 11
- Lender Self-Report 94

**SEARCH RESULTS (106)**

[Download icon]

Case Number	Batch	Product Type	Selection Date	Selection Reason	Selection Status	Review Type	Review Level	Review Status	Review Location
[blurred]	[blurred]	Refinance	[blurred]	Early Claims	Received	Underwriting	Initial	Assigned	SNA-QAD
[blurred]	[blurred]	Refinance	[blurred]	Lender Self-Report	Received	Underwriting	Initial	Assigned	SNA-QAD
[blurred]	[blurred]	Purchase	[blurred]	Early Payment Defaults	Received	Underwriting	Initial	Completed	SNA-PUD
[blurred]	[blurred]	Purchase	[blurred]	Early Payment Defaults	Received	Underwriting	Initial	Completed	DEN-PUD
[blurred]	[blurred]	Purchase	[blurred]	Lender Self-Report	Received	Underwriting	Mitigation 2	Assigned	PHI-QAD

# Resources (cont.)

	Option	Point of Contact	Hours Available	Comments
1	FHA Knowledge Base – FAQs	www.hud.gov/answers	24/7/365	Knowledge Base web page includes option to email questions.
2	Email	answers@hud.gov	24/7/365	
3	Telephone	1-800-CALL-FHA (1-800-225-5342) Persons with hearing or speech impairments may reach this number by calling the Federal Relay Service at 1-800-877-8339.	8:00 AM to 8:00 PM Eastern M-F	Voicemail is available after hours or during extended wait periods.
<b>FHA INFO</b> emails: Frequent email notifications of new policies and training opportunities for anyone who signs up. Subscribe at: <a href="https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe">https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/FHA_INFO_subscribe</a>				

# Helpful Links

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- FHA Single Family Information Page  
[https://www.hud.gov/program\\_offices/housing/sfh](https://www.hud.gov/program_offices/housing/sfh)
- Single Family Housing Policy Handbook 4000.1  
[https://www.hud.gov/program\\_offices/housing/sfh/handbook\\_4000-1](https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1)
- Single Family Drafting Table  
[https://www.hud.gov/program\\_offices/housing/sfh/sfh\\_policy\\_drafts](https://www.hud.gov/program_offices/housing/sfh/sfh_policy_drafts)
- FHA National Servicing Center  
[https://www.hud.gov/program\\_offices/housing/sfh/nsc](https://www.hud.gov/program_offices/housing/sfh/nsc)
- FHA Servicing and Loss Mitigation Training  
[https://www.hud.gov/program\\_offices/housing/sfh/nsc/training](https://www.hud.gov/program_offices/housing/sfh/nsc/training)
- Subscribe to FHA INFO Notices  
[https://www.hud.gov/program\\_offices/housing/sfh/FHA\\_INFO\\_subscribe](https://www.hud.gov/program_offices/housing/sfh/FHA_INFO_subscribe)



# Q&A

# Q&A Protocol

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- Click *Test Speaker & Microphone* option or Microphone icon if image is crossed out.
- Test/change audio settings on computer/smartphone/telephone by selecting *Audio Settings* on toolbar.

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### Option A: Computer or smartphone

- If viewing webinar through computer or smartphone, click *Raise Hand* icon. You will receive onscreen message to unmute yourself - click *Unmute Myself* button. When prompted by moderator, provide your name, company affiliation, then ask your question.

### Option B: Standard telephone line

- To ask a question, press \*9 to be placed in queue. Webinar moderator will unmute your phone and you will hear an automated voice message stating *You Are Unmuted*. When prompted by moderator, provide your name, company affiliation, then ask your question.



# Thank you for joining us today!

